

AKRON CARE CENTER, INC.

INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS,
OTHER INFORMATION,
AND SCHEDULE OF FINDINGS

JUNE 30, 2013 AND 2012

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AKRON CARE CENTER, INC.

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Brad Britton	President	Dec 2013
Dan Rexwinkel	Vice President	Dec 2015
Iola Frerichs	Secretary	Dec 2013
Margaret Correia	Member	Dec 2013
Bob Watson	Member	Dec 2015
Brandon Verros	Administrator	Indefinite
Chad Ericson	Representative, City of Akron	Appointed by City

INDEPENDENT AUDITORS' REPORT

Board of Directors
Akron Care Center, Inc.
Akron, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Akron Care Center, Inc., a component unit of the City of Akron, Iowa, as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Care Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Akron Care Center, Inc. as of June 30, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Akron Care Center, Inc.'s basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of Akron Care Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Certified Public Accountants

Onawa, Iowa
December 9, 2013

AKRON CARE CENTER, INC.

STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u> (Restated)
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 383,425	\$ 525,882
Board Designated Cash	50,682	38,582
Accounts Receivable (Less Allowance for Doubtful Accounts \$43,718 and \$57,000 for 2013 and 2012)	159,701	205,640
Promises to Give (Less Allowance for Uncollectible Promises \$8,260 and \$26,860 for 2013 and 2012)	158,366	137,541
Due From Other Governments	755,558	43,090
Prepaid Expenses	14,001	11,417
Total Current Assets	1,521,733	962,152
<u>NONCURRENT ASSETS</u>		
Promises to Give	191,251	406,743
Land - Note 6	23,004	23,004
Construction in Progress - Note 6	406,793	379,346
Other Capital Assets, Net of Depreciation - Note 6	693,730	743,810
Total Noncurrent Assets	1,314,778	1,552,903
Total Assets	2,836,511	2,515,055

LIABILITIES

<u>CURRENT LIABILITIES</u>		
Accounts Payable	50,675	69,745
Accrued Salaries and Payroll Taxes Payable	44,597	43,736
Accrued Compensated Absences Payable - Current	8,314	7,079
Accrued Interest Payable	21,823	18,318
Peoples Bank Note Payable - Current - Note 8	22,128	21,229
Total Current Liabilities	147,537	160,107
<u>NONCURRENT LIABILITIES</u>		
Accrued Compensated Absences Payable - Long-Term	24,942	21,238
City of Akron Notes Payable - Long-Term - Note 7	140,000	140,000
Peoples Bank Note Payable - Long-Term - Note 8	262,378	284,621
Total NonCurrent Liabilities	427,320	445,859
Total Liabilities	574,857	605,966

NET POSITION

Net Investment in Capital Assets	839,021	840,310
Restricted:		
Expendable	1,105,175	587,374
Unrestricted	317,458	481,405
Total Net Position	\$ 2,261,654	\$ 1,909,089

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u> (Restated)
<u>OPERATING REVENUES</u>		
Patient and Resident Revenue	\$ 2,281,984	\$ 2,422,686
Meals	3,513	4,535
Miscellaneous Income	<u>44,445</u>	<u>36,610</u>
Total Operating Revenues	2,329,942	2,463,831
<u>OPERATING EXPENSES</u>		
Administrative Expenses	325,236	373,196
Dietary Services	289,533	285,913
General Services	208,297	235,694
Patient Care Services	1,342,337	1,455,178
Depreciation	20,808	22,972
Interest Expense	4,500	-
Apartments - Village South	27,152	23,488
Apartments - Village North	<u>59,632</u>	<u>44,367</u>
Total Operating Expenses	2,277,495	2,440,808
<u>OPERATING INCOME</u>	52,447	23,023
<u>NON-OPERATING REVENUES</u>		
Donations and Memorials	299,185	1,070,228
Interest Income	<u>933</u>	<u>591</u>
Total Non-Operating Revenues	<u>300,118</u>	<u>1,070,819</u>
Changes in Net Position	352,565	1,093,842
Net Position at Beginning of Year	<u>1,909,089</u>	<u>815,247</u>
Net Position at End of Year	<u><u>\$ 2,261,654</u></u>	<u><u>\$ 1,909,089</u></u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u> (Restated)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patient and Resident Services	\$ 2,327,923	\$ 2,408,452
Cash Paid to Suppliers for Goods and Services	(742,567)	(896,210)
Cash Paid to Employees for Services	(1,484,638)	(1,475,841)
Donations Received	493,852	525,944
Other Operating Revenues	47,958	41,145
	<u>642,528</u>	<u>603,490</u>
Net Cash Provided By Operating Activities		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(27,447)	(109,913)
Contribution to the City of Akron	(712,468)	(43,090)
Principal Paid on Bank Note Payable	(21,344)	(20,400)
Interest Paid on Bank Note Payable	(12,559)	(8,738)
	<u>(773,818)</u>	<u>(182,141)</u>
Net Cash (Used) By Capital and Related Financing Activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of Investments - Certificate of Deposit	-	5,277
Interest Received	933	591
	<u>933</u>	<u>5,868</u>
Net Cash Provided By Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(130,357)	427,217
Cash and Cash Equivalents at Beginning of Year	564,464	137,247
Cash and Cash Equivalents at End of Year	<u>\$ 434,107</u>	<u>\$ 564,464</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</u>		
Cash and Cash Equivalents	\$ 383,425	\$ 525,882
Board Designated Cash	50,682	38,582
Total Cash and Cash Equivalents	<u>\$ 434,107</u>	<u>\$ 564,464</u>

(Continued)

AKRON CARE CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

(Continued)

	<u>2013</u>	<u>2012</u> (Restated)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income	\$ 52,447	\$ 23,023
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Donations	299,185	1,070,228
Interest Expense	16,064	14,333
Bad Debt Expense	-	31,927
Depreciation	50,080	52,244
(Increase) Decrease in Assets:		
Accounts Receivable	45,939	(14,234)
Promises to Give	194,667	(544,284)
Prepaid Expenses	(2,584)	11,182
Increase (Decrease) in Liabilities:		
Accounts Payable	(19,070)	(59,444)
Accrued Salaries and Payroll Taxes Payable	861	13,378
Accrued Compensated Absences	4,939	5,137
Total Adjustments	<u>590,081</u>	<u>580,467</u>
Net Cash Provided By Operating Activities	<u>\$ 642,528</u>	<u>\$ 603,490</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

Akron Care Center, Inc. is licensed as a nursing facility with a 45 bed capacity. Substantially all of the Care Center's patients and residents are local residents and a majority of them are entitled to benefits under the Medicaid/Title XIX program. Akron Care Center, Inc. also operates two senior living apartment complexes separate from the licensed facility. For the years ended June 30, 2013 and 2012, Title XVIII and Title XIX revenue, as a percentage of total revenue, was 55% and 55%, respectively.

Akron Care Center, Inc.'s financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Akron Care Center, Inc. has included all funds, organizations, agencies, boards, commissions and authorities. The Care Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Care Center are such that exclusion would cause the Care Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Akron Care Center, Inc. to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Akron Care Center, Inc. Akron Care Center, Inc. has no component units which meet the Governmental Accounting Standards Board criteria. Akron Care Center, Inc. is a component unit of the City of Akron, Iowa.

B. Basis of Presentation

The Statement of Net Position (previously referred to as net asset) displays the Care Center's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balance for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. These assets will be released from restrictions when expended in accordance with the donors' specifications.

Unrestricted Net Position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

When an expense is incurred and both restricted and unrestricted resources are available for use, it is the Care Center's policy to apply the expense toward restricted fund balance first and then to unrestricted fund balance.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Cash Equivalents – Akron Care Center, Inc. considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all individual patient balances.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Donated fixed assets are recorded at their estimated fair value at the time received.

Reportable capital assets are defined by Akron Care Center, Inc. as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and Improvements	\$ 3,000
Equipment and Vehicles	3,000

Capital assets of Akron Care Center, Inc. are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	10 - 50
Equipment and Vehicles	3 - 25

F. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

G. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

Note 2 - CASH AND CASH EQUIVALENTS

The Care Center's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Care Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; common stock; perfected repurchased agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Custodial Credit Risk – The Care Center has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss on public funds.

Note 3 - REIMBURSEMENT AGREEMENTS WITH CONTRACTING AGENCIES

The Care Center has entered into reimbursement agreements for nursing services rendered to Medicare and Medicaid patients. The Medicare and Medicaid programs have adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

Note 4 - OPERATING LEASES

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$3,634 and \$2,444 for the years ended June 30, 2013 and 2012, respectively.

Note 5 - RELATED PARTY TRANSACTIONS

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2013 and 2012 were \$48,067 and \$33,904, respectively.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2013 and 2012 was as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Fiscal year ended June 30, 2013:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Construction in progress	379,346	27,447	-	406,793
Total capital assets not being depreciated	402,350	27,447	-	429,797
Capital assets being depreciated:				
Building and improvements	1,838,198	-	-	1,838,198
Equipment and furnishings	291,082	-	-	291,082
Total capital assets being depreciated	2,129,280	-	-	2,129,280
Less accumulated depreciation for:				
Building and improvements	1,137,919	40,455	-	1,178,374
Equipment and furnishings	247,551	9,625	-	257,176
Total accumulated depreciation	1,385,470	50,080	-	1,435,550
Total capital assets being depreciated, net	743,810	(50,080)	-	693,730
Total capital assets, net	\$ 1,146,160	\$ (22,633)	\$ -	\$ 1,123,527
Fiscal year ended June 30, 2012:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Construction in progress	269,433	109,913	-	379,346
Total capital assets not being depreciated	292,437	109,913	-	402,350
Capital assets being depreciated:				
Building and improvements	1,838,198	-	-	1,838,198
Equipment and furnishings	291,082	-	-	291,082
Total capital assets being depreciated	2,129,280	-	-	2,129,280
Less accumulated depreciation for:				
Building and improvements	1,096,201	41,718	-	1,137,919
Equipment and furnishings	237,025	10,526	-	247,551
Total accumulated depreciation	1,333,226	52,244	-	1,385,470
Total capital assets being depreciated, net	796,054	(52,244)	-	743,810
Total capital assets, net	\$ 1,088,491	\$ 57,669	\$ -	\$ 1,146,160

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 6 – CAPITAL ASSETS (Cont.)

Reconciliation of Net Investment in Capital Assets

	<u>2013</u>	<u>2012</u>
Land	\$ 23,004	\$ 23,004
Construction in Progress	406,793	379,346
Other Capital Assets, Net of Depreciation	693,730	743,810
Peoples Bank Note Payable	<u>(284,506)</u>	<u>(305,850)</u>
Net Investment in Capital Assets	<u>\$ 839,021</u>	<u>\$ 840,310</u>

Note 7– CITY OF AKRON NOTES PAYABLE

In February 2009, Akron Care Center had a \$40,000 long-term note with a maturity date of August 2013, interest rate of 0.00% and no set payment schedule determined. In July 2011, the note was extended for 20 years. No principal or interest is due for the first 11 years of the note, and principal payments will be required at least annually beginning July 2023.

In February 2009, the City of Akron advanced to Akron Care Center, Inc. \$100,000 to cover operating expenses.

The note was originally due in September 2013, an interest rate of 4.50% and no set payment schedule determined. In July 2011, the note was extended for 20 years. Only interest payments are to be made for the first 11 years. Beginning in July 2023, the Care Center will be required to make principal payments at least annually. The facility made no interest payments during the fiscal year. The following are the maturities for both the above notes over the future fiscal years ending June 30:

Year Ending June 30,	Principal Note #1	Interest @ 0.00%	Principal Note #2	Interest @ 4.50%	Total Principal	Total Interest	Total
2014	\$ -	\$ -	\$ -	\$ 4,500	\$ -	\$ 4,500	\$ 4,500
2015	-	-	-	4,500	-	4,500	4,500
2016	-	-	-	4,500	-	4,500	4,500
2017	-	-	-	4,500	-	4,500	4,500
2018	-	-	-	4,500	-	4,500	4,500
2019 - 2023	-	-	-	22,500	-	22,500	22,500
2024 - 2028	25,000	-	58,247	16,445	83,247	16,445	99,692
2028 - 2031	15,000	-	41,753	11,105	56,753	11,105	67,858
	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 87,110</u>	<u>\$ 140,000</u>	<u>\$ 87,110</u>	<u>\$ 227,110</u>

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 8 – PEOPLES BANK NOTE PAYABLE

Akron Care Center, Inc. financed through Peoples Bank \$625,000 for the construction of the Village North Apartment Complex, an 8-unit senior living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122 including interest at 3.30%. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The note was refinanced on November 24, 2008 for \$375,000 which is payable in 180 equal monthly installments of \$2,823 including interest at 4.25%.

The following are the maturities over the future fiscal years ending June 30:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2014	4.25%	\$ 22,128	\$ 11,751	\$ 33,879
2015	4.25%	23,087	10,792	33,879
2016	4.25%	24,072	9,807	33,879
2017	4.25%	25,145	8,734	33,879
2018	4.25%	26,220	7,659	33,879
2019 – 2023	4.25%	147,238	22,157	169,395
2024	4.25%	16,616	209	16,825
Total		<u>\$ 284,506</u>	<u>\$ 71,109</u>	<u>\$ 355,615</u>

Note 9 – LONG-TERM LIABILITIES

Long-Term liability activity for the years ended was as follows:

June 30, 2013	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 28,317	\$ 64,143	\$ 59,204	\$ 33,256	\$ 8,314
City of Akron Notes Payable	140,000	-	-	140,000	-
Peoples Bank Notes Payable	305,850	-	21,344	284,506	22,128
Long-Term Liabilities	<u>\$ 474,167</u>	<u>\$ 64,143</u>	<u>\$ 80,548</u>	<u>\$ 457,762</u>	<u>\$ 30,442</u>

June 30, 2012	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 23,180	\$ 13,555	\$ 8,418	\$ 28,317	\$ 7,079
City of Akron Notes Payable	140,000	-	-	140,000	-
Peoples Bank Notes Payable	326,250	-	20,400	305,850	21,229
Long-Term Liabilities	<u>\$ 489,430</u>	<u>\$ 13,555</u>	<u>\$ 28,818</u>	<u>\$ 474,167</u>	<u>\$ 28,308</u>

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 10 – PENSION AND RETIREMENT BENEFITS

The Care Center contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which as established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the Care Center is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Care Center's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$106,709, \$99,821 and \$76,508, respectively, equal to their required contributions for each year.

Note 11 – RISK MANAGEMENT

The Care Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Care Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Care Center's workers' compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2013, there were no claims in excess of the minimum contributions to the claim fund.

Note 12 – CONTINGENT LIABILITY

The Care Center has been named in a claim related to a compensation agreement with a construction manager related to the construction of the new care facility. The action is in its early stages. Legal counsel is unable to evaluate the eventual outcome of the suit. Since the amount of the contingency arising from the claim cannot be reasonably estimated, no provision has been made.

Note 13 – CONSTRUCTION OF NEW CARE FACILITY

A new 45 bed facility is under construction at June 30, 2013. The City of Akron has obtained funding to finance this project which consists of a \$4,000,000 USDA loan and \$1,250,000 in general obligation bonds. The new facility is scheduled to be completed in August 2013. When complete, the new facility will be turned over from the City of Akron, Iowa, along with the associated debt. The old facility will be turned over to the City of Akron, Iowa.

AKRON CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 14 – RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

In 2013, Akron Care Center, Inc. determined that the activity associated with the construction of the new facility was incorrectly reported as of June 30, 2012. Therefore, restatements to the 2012 financial statements were required. The overall restatement for fiscal year 2012 resulted in a decrease in change in net position of \$425,759. The effect of the restatement on net position and change in net position for the fiscal year 2012 is as follows:

	June 30, 2012 Previously Presented	Restatement	June 30, 2012 As Restated
Assets			
Current Assets	\$ 2,345,827	\$ (1,383,675)	\$ 962,152
Non-Current Assets	2,035,390	(482,487)	1,552,903
Total Assets	<u>4,381,217</u>	<u>(1,866,162)</u>	<u>2,515,055</u>
Liabilities			
Current Liabilities	405,510	(245,403)	160,107
Non-Current Liabilities	1,640,859	(1,195,000)	445,859
Total Liabilities	<u>2,046,369</u>	<u>(1,440,403)</u>	<u>605,966</u>
Net Position			
Net Investment in Capital Assets	1,131,818	(291,508)	840,310
Restricted: Expendable	1,781,860	(1,194,486)	587,374
Unrestricted	(578,830)	1,060,235	481,405
Total Net Position	<u>\$ 2,334,848</u>	<u>\$ (425,759)</u>	<u>\$ 1,909,089</u>
Operating Revenues	\$ 2,463,831	\$ -	\$ 2,463,831
Operating Expenses	2,466,909	(26,101)	2,440,808
Operating Income (Loss)	(3,078)	26,101	23,023
Non-Operating Revenues	1,522,679	(451,860)	1,070,819
Change in Net Position	<u>\$ 1,519,601</u>	<u>\$ (425,759)</u>	<u>\$ 1,093,842</u>

OTHER INFORMATION

AKRON CARE CENTER, INC.

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES

AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

YEAR ENDED JUNE 30, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
<u>OPERATING REVENUES</u>						
Charges for Fees, Services and Loans	\$ 2,329,942	\$ (665,596)	\$ 1,664,346	\$ 2,299,332	\$ 2,299,332	\$ (634,986)
<u>OPERATING EXPENSES</u>						
Business Type Expenditures and Principal Payments	2,277,495	11,060	2,288,555	2,196,322	2,196,322	(92,233)
<u>NONOPERATING (REVENUES) EXPENSES</u>	<u>300,118</u>	<u>193,734</u>	<u>493,852</u>	<u>-</u>	<u>-</u>	<u>493,852</u>
<u>NET CHANGE IN NET POSITION</u>	<u>352,565</u>	<u>(482,922)</u>	<u>(130,357)</u>	<u>103,010</u>	<u>103,010</u>	<u>(233,367)</u>
<u>BALANCE BEGINNING OF YEAR</u>	<u>1,909,089</u>	<u>(1,344,625)</u>	<u>564,464</u>	<u>242,885</u>	<u>242,885</u>	<u>321,579</u>
<u>BALANCE END OF YEAR</u>	<u>\$ 2,261,654</u>	<u>\$ (1,827,547)</u>	<u>\$ 434,107</u>	<u>\$ 345,895</u>	<u>\$ 345,895</u>	<u>\$ 88,212</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.
NOTES TO OTHER INFORMATION-
BUDGETARY REPORTING

JUNE 30, 2013

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Care Center on the cash basis of accounting. The Akron Care Center submits the adopted budget to the City of Akron where it is incorporated within the City of Akron's certified budget. The City of Akron is responsible for following the requirements of public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City of Akron's Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total disbursements.

For the year ended June 30, 2013, the Care Center's disbursements exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual disbursements for the entire City of Akron to the total business-type activities budget.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Akron Care Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Akron Care Center, Inc. as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated December 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Akron Care Center, Inc.'s internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Akron Care Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Akron Care Center, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Akron Care Center, Inc.'s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies of Akron Care Center, Inc.'s internal control described in the accompanying Schedule of Findings as items II-A-13, II-B-13, II-C-13, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Akron Care Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Care Center's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Care Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Akron Care Center, Inc.'s Response to Findings

Akron Care Center, Inc.'s responses to findings identified in our audit are described in the accompanying Schedule of Findings. Akron Care Center, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Akron Care Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Certified Public Accountants

Onawa, Iowa
December 9, 2013

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2013

Part I: Summary of the Independent Auditors' Results

- A. An unmodified opinion was issued on the financial statements.
- B. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- C. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

- II-A-13 Financial Accounting - Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – An individual who does not have access to the accounting records should prepare the initial cash receipts listing at the time of opening the mail. This listing should be compared to the cash receipts journal and the bank deposits on a periodic basis by the Administrator or a different accountant.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager review receipts, posting, and payroll on a test basis.

Conclusion – Response accepted.

- II-B-13 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not adjusted in the Care Center's financial statements. Adjustments were subsequently made by the Care Center to properly include these amounts in the financial statements.

Recommendation – The Care Center should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Care Center's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

- II-C-13 Financial Accounting – Bed & Breakfast – During the audit, we identified weaknesses in internal control related to the accounting for the bed and breakfast income. There are times when guests arrive after normal business hours however; it appears that not all stays may be getting accounted for appropriately.

Recommendation – The Care Center should implement procedures to ensure all reservations are properly reported and all cash receipts are accounted for.

Response – We will revise our current procedures to ensure all reservations are properly reported and all cash receipts are recorded in the financial statements in the future.

Conclusion – Response accepted.

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS (Cont.)

JUNE 30, 2013

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (A) Questionable Expenses – No questionable expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (B) Official Depositories – A resolution naming official depositories has been adopted by the Care Center. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.
- (C) Travel Expense – No disbursements of money for travel expenses of spouses of Care Center officials or employees were noted.
- (D) Board Minutes – No transactions were found that we believe should have been approved in the Care Center's minutes but were not.
- (E) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Care Center's investment policy were noted.
- (F) Business Transactions – The following business transactions occurred between the Care Center and Care Center officials:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brad Britton, Board President, Owner of Britton Chiropractic	Chiropractic Services	\$1,133

- (G) Budget – Expenditures during the year ended June 30, 2013 exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual expenditures for the entire City of Akron to the total business-type activities budget.
- (H) Publication of Salaries – In fiscal year 2013, actual gross salaries were not published as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation – The Care Center should publish actual gross salaries as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Response – We will seek legal counsel for further guidance on this requirement.

Conclusion – Response accepted.